



COMMERCIAL REAL ESTATE

MARKET REPORT

Third Quarter 2021

$A\ Message\ From$ Matthew Goldsby, Belvoir Managing Director

Bottlenecked Ports and What That Means for Industrial Real Estate in Houston

Overflowing ports driving up demand for industrial real estate in Houston

Given manufacturing delays, labor shortages, transportation bottlenecks and skyrocketing consumer demand, the global supply chain has been in disarray for over 18 months. With major coastal ports struggling with unusually high levels of congestion Houston's Gulf Coast industrial real estate market is reaping the rewards.

Record volumes of cargo are flowing through Port Houston and the Industrial market is on track to experience one of its strongest years for absorption. However, unlike the Port of Long Beach and the Port of Los Angeles, the Port of Houston has not been suffering from crippling bottleneck problems. In fact, the Port of Houston handled the increase in volume without a hitch. As a result of the influx in cargo, Houston has seen a strong appetite for industrial real estate, particularly from third-party logistics firms.

As of this quarter, the Port of Houston boasts a market warehouse inventory of 478.5M SF — the third largest among major U.S. port markets, which has made Houston that much more practical for shipping companies looking to steer clear of the more congested points of entry.

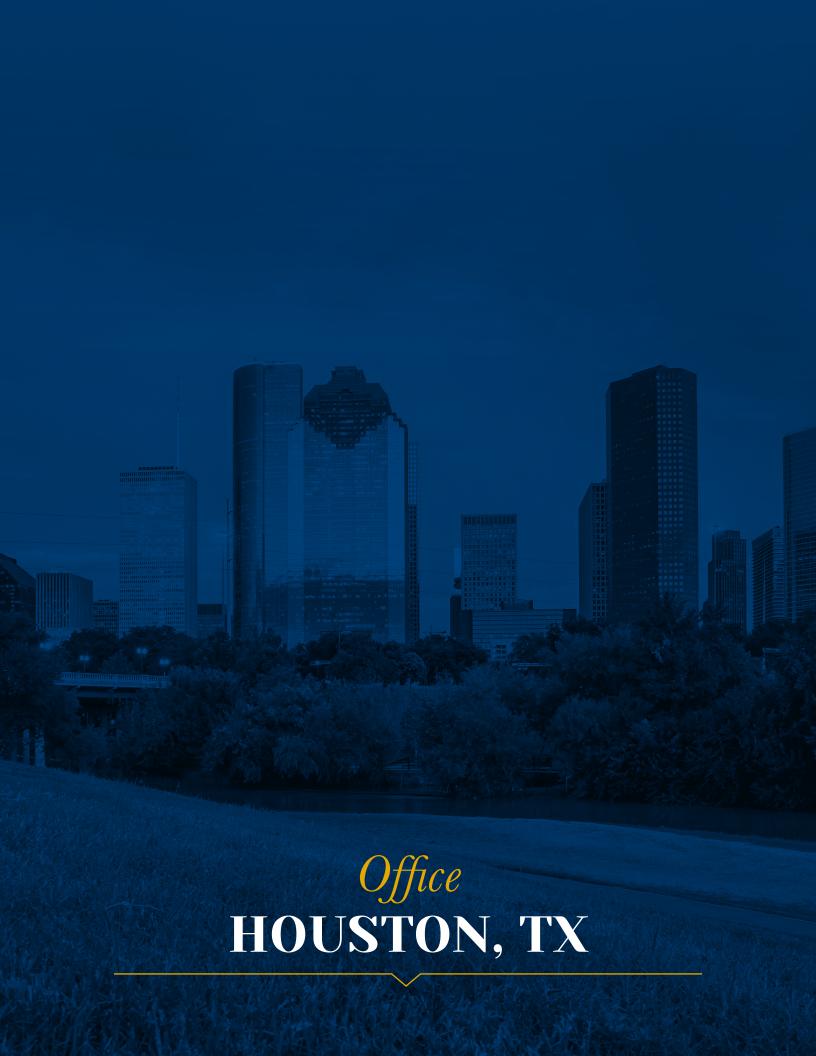
Developers have delivered nearly 2.7M SF of industrial space this year, while the market absorbed more than 4M SF. The industrial vacancy rate decreased for the second consecutive quarter, bringing it down to 7.7%.

The change underway in U.S. distribution networks is having a tangible impact on Houston's industrial real estate landscape. In 2020, Houston absorbed more than 17M SF of industrial space, and as of Q2 2021, had already absorbed 11.4M SF. In comparison, the city has averaged around 11M SF of absorption annually over the past decade.

As more firms look to reconfigure their distribution networks, Port Houston is likely to continue seeing an upward trend in cargo volumes, which will continue to drive demand for industrial real estate in Houston and its surrounding regions.

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Houston Office MARKET SNAPSHOT

LEASING

Based on CoStar data, the city of Houston had the country's highest vacancy rate in 2021q3, at 19.1%. Houston's office market experienced -1.4 million of net absorption over the past 12 months as of 2021q3, following nearly -5 million SF of net absorption in 2020. Out of all the markets CoStar tracks, Houston had the highest vacancy rate in the country as of 2021q3 — 19% for a second Quarter in a row. Nationally, office vacancies were about 12.2% as of 2021q3.

RFNT

Asking rents in Houston have corrected by about -0.9% over the past year, which was underperforming the U.S. average as of 2021q3. The pace of rent growth has also decelerated following each of the past three local downturns. Over the previous year, every submarket had seen a rent decrease. The handful that did not were typically smaller submarkets that have not experienced much new supply or large-scale moveouts. In addition, generous concessions programs continue to accompany the rent discounts for tenants who are prepared to make significant commitments in most Houston areas.

CONSTRUCTION

Despite Houston's negative office performance, today there is 5.8 million SF under construction, including several large trophy assets in the CBD. This new construction is over 50% preleased as of 2021q3. Yet Houston's construction pipeline has wound down significantly. The amount under construction in Houston as of 2021q3 had slowed to one-third of the level under construction seen in 1402 — equal to less than 2% of Houston's total inventory today.



Leasing Associate, Renee Kaiser arranged a lease at 7660 Woodway in Houston, Texas. The Tenant, TourVille, signed a long-term 4,500 SF lease.

SALES

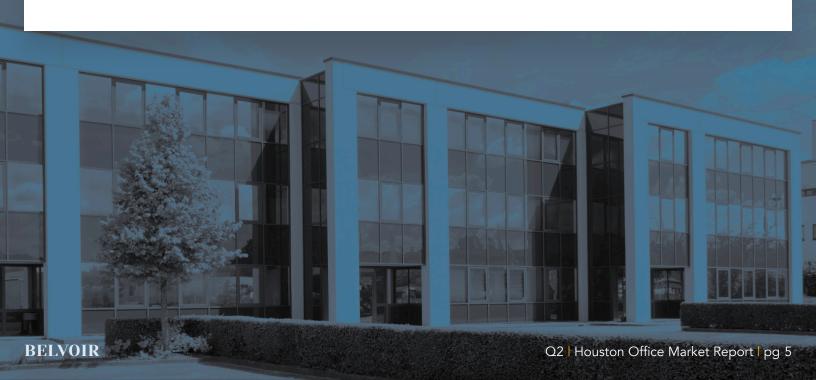
Transaction volumes cratered in Houston starting in early 2020 — falling more than 60% over the prior year — and have yet to recover. This trend remains more pronounced in Houston than nationally, where transaction volumes have comparatively fallen about 20%. Private capital accounted for a third of all buyers and sellers last quarter. During that time, several national investors offloaded their positions onto local investors and government entities with compelling reasons to continue investing in Houston's office market. Average sales price per square foot held at \$123.

Source: CoStar Property®

HOUSTON OFFICE

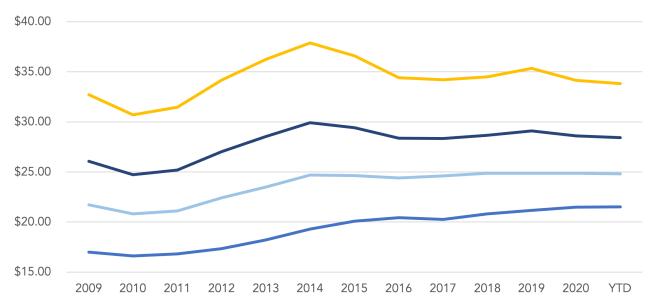
SUBMARKET STATISTICS

Market	Existing Inventory		Vacancy		12 Month	12 Month	Under	Rent Per
	Bldgs	SF (000)	SF	Percent	Absorption	Deliveries SF(000)	Const SF (000)	SF
Bellaire	93	5,415	970,308	17.90%	-70,135	2	-	\$26.29
CBD	164	51,523	11,688,860	22.70%	-527,660	0	1,622	\$36.14
E Fort Bend Co/Sugar Land	472	10,577	1,560,102	14.70%	-16,916	163	28	\$28.49
FM 1960/Champions	313	4,644	667,762	14.40%	55,151	47	-	\$19.21
FM 1960/Hwy 249	524	10,427	1,847,688	17.70%	267,976	289	152	\$25.47
Greenspoint/IAH	59	3,284	764,631	23.30%	1,995	0	-	\$19.61
Greenway Plaza	276	12,748	2,683,310	21.00%	-675,380	0	5	\$30.50
Gulf Freeway/Pasadena	680	8,614	1,028,998	11.90%	-372	32	410	\$22.68
Katy Freeway East	276	12,387	1,606,481	13.00%	186,172	335	626	\$32.95
Katy Freeway West	267	28,049	6,577,298	23.40%	-386,317	8	2	\$28.65
Midtown	616	10,841	1,433,131	13.20%	33,989	305	210	\$30.72
NASA/Clear Lake	553	10,401	1,203,793	11.60%	174,614	39	17	\$24.31
Post Oak Park	46	4,861	1,538,674	31.70%	169,091	15	77	\$31.88
San Felipe/Voss	50	5,363	1,535,843	28.60%	-251,255	0	-	\$26.67
South Main/Medical Center	248	13,926	1,161,826	8.30%	-195,169	0	1,328	\$29.61
Southwest Beltway 8W	193	7,419	1,332,393	18.00%	45,162	0	-	\$18.55
Southwest/Hillcroft	111	5,383	845,936	15.70%	-4,654	0	-	\$17.62
The Woodlands	725	24,181	3,473,309	14.40%	75,944	181	695	\$32.94
West Belt	119	6,465	1,643,428	25.40%	-33,837	0	-	\$28.62
Westchase	139	19,002	4,936,593	26.00%	-327,088	19	-	\$27.03
West Belt	118	6,405	1,658,926	25.90%	-68,460	4	-	\$29.28



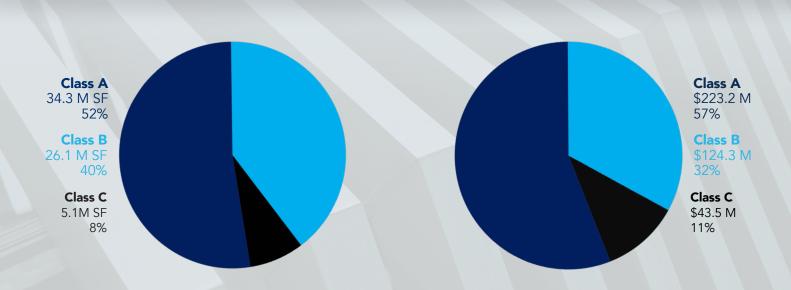
SUBMARKET STATISTICS HOUSTON OFFICE

MARKET RENT PER SF: THROUGH Q3 2021



VACANCY BY CLASS

SALES BY CLASS





Houston Industrial MARKET SNAPSHOT

LEASING

Houston's vacancy rate of 7.7% is down from a recent peak of nearly 9% in 21Q1. CoStar forecasts the vacancy rate should continue to compress toward 7%. While Houston's industrial market has ridden the wave of population, e-commerce, and petrochemical growth, its exposure to the upstream energy sector also means that it has faced some downside pressures in recent years compared to markets of similar size. Even as Houston's industrial market ranked in the top 10 U.S. markets in terms of net absorption over the past year. While that vacancy rate was still the highest of the top 24 U.S. markets by asset value, that downward compression of vacancies is a positive sign.

RENT

Houston industrial rents began a resurgence in the second quarter of this year after tapering off during the pandemic and recent supply wave. Nearly every Houston submarket is back to year-over-year rent growth. Citywide, rents have grown 2.7% over the past year, although this figure trails the national average of 6.8%. Looking ahead, CoStar forecast that rents should continue to grow significantly in the coming years as the economy bounces back, new supply decreases, and leasing activity continues to surge. Rent growth in Houston had been steady ever since the global financial crisis, which is indicative of how globally and nationally oriented Houston's economy and particularly its industrial sector have become.

CONSTRUCTION

Developers are working to keep up with demand spurred by growth in e-commerce and homebuilding. As a result, over the past year, Houston saw 24.5 million SF of net deliveries, nearly all of which was absorbed. This follows a recent supply wave of 34 million SF in 2020, a record year. Meanwhile, Houston had fallen to 10th place for the amount under construction, with 13.7 million SF. Nearly 90% of what is currently under construction is rated 4 and 5 Star. Houston's inventory increased 15% over the past five years, which was about in line with the other major Texas metros and nearly double the U.S. average of 8%. Only Dallas and the Inland Empire experienced more net deliveries during that time.



Sam Patel purchased a hotel on 1.6 acres at 9041 Westheimer. Belvoir Real Estate Group Vice President, Kyle Fischer, represented the seller

SALES

Houston's largest submarket, East-Southeast Far, accounted for 20% of trades in 2021 — over 6.5 million SF, or over 7% of the submarket's inventory, and more than double any other submarket. In East-Southeast Far, over half of what was sold was 4 Star, much of it either newly built and stabilized or high quality and a few years older with presumably some lease roll coming soon. In the latter scenario, there might be an opportunity for new investors to increase rents with minimal tenant improvements.

Source: CoStar Property®

SUBMARKET STATISTICS

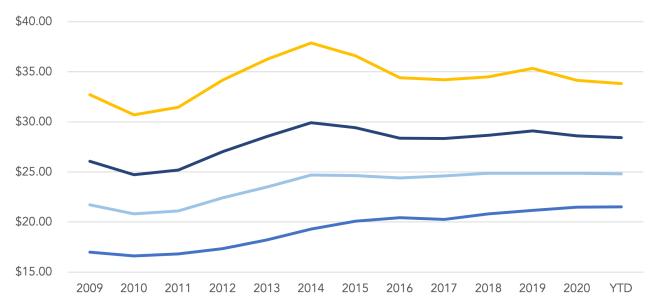
HOUSTON INDUSTRIAL

Market	Existing Inventory		Vacancy		12 Month	12 Month Deliveries	Under	Rent Per
	Bldgs	SF (000)	SF	Percent	Absorption	SF(000)	Const SF (000)	SF
Downtown Houston	886	31,881	1,597,800	5.00%	28,763	0	-	\$5.72
East-Southeast Far	2,472	90,034	7,627,024	8.50%	4,800,378	3,446	4,231	\$7.65
Hwy 290/Tomball Pky	740	31,085	3,567,128	11.50%	1,901,024	1,014	762	\$7.86
Hwy 59/Hwy 90 (Alt)	1,103	29,596	2,463,475	8.30%	1,416,192	1,152	-	\$7.99
North Fwy/Tomball Pky	1,349	37,898	3,062,129	8.10%	3,439,267	2,014	195	\$8.35
North Hardy Toll Road	955	43,280	4,570,999	10.60%	945,891	1,522	133	\$7.76
North Outer Loop	1,135	27,513	2,346,328	8.50%	625,577	966	-	\$7.27
Northeast Hwy 90	722	25,380	2,426,216	9.60%	230,954	675	510	\$7.67
Northeast Inner Loop	198	12,292	629,715	5.10%	-73,267	0	-	\$5.48
Northwest Near	849	20,445	768,883	3.80%	274,081	135	-	\$7.28
Northwest Outliers	780	37,082	3,727,179	10.10%	3,694,385	3,849	1,674	\$8.77
South Hwy 35	1,912	42,524	1,968,516	4.60%	379,021	800	923	\$7.23
Sugar Land	585	30,086	2,460,708	8.20%	3,824,082	5,379	81	\$8.13
The Woodlands/Conroe	1,397	27,921	1,495,228	5.40%	1,564,029	1,019	3,236	\$9.81



SUBMARKET STATISTICS HOUSTON INDUSTRIAL

MARKET RENT PER SF: THROUGH Q3 2021



VACANCY BY CLASS

SALES BY CLASS



HOUSTON, TX

KEY INSIGHTS



Prime Rate

3.25%



Office Vacancy Rate

19.1%



Industrial Vacancy Rate

7.7%

Industrial Market

	Quarter 2: YTD	Quarter 3: YTD	Change
Deals	603	983	+ 210
Vacancy	702,579,576 SF	54,825,515 SF	- 647,754,061 SF
Sales Volume	\$367.3 M	\$1.2 B	+ \$832.7 M

Office Market

		Quarter 2: YTD	Quarter 3: YTD	Change
D	eals	340	550	+ 210
Vaca	ancy	64,569,252 SF	65,463,545 SF	+ 894,293 SF
Sales Volu	ume	\$286 M	\$391 M	+ \$105 M

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